ZTEST Electronics Inc.

Unaudited Condensed Interim Consolidated Financial Statements

December 31, 2014

(Stated in Canadian Dollars)

Notice To Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on February 24, 2015. They have not been reviewed by the Companyơs auditors.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management. These condensed interim consolidated financial statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events. Where necessary, management has made informed judgments and estimates in accounting for these assets and liabilities and for transactions which were not complete at the end of the reporting period. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these unaudited condensed interim consolidated financial statements have been fairly presented.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Stated in Canadian Dollars)
December 31, 2014

	Dec. 31 2014	June 30 2014
Assets		
Current assets		
Cash and cash equivalents *(note 3)*	$ **43,541**	$ 53,723
Restricted cash equivalents *(note 6)*	**-**	250,000
Accounts receivable	**430,114**	413,485
Inventories *(note 4)*	**593,868**	662,941
Prepaid expenses	**4,609**	8,254
	1,072,132	1,388,403
Lease deposit *(note 10)*	**35,000**	35,000
Equipment *(note 5)*	**607,966**	674,697
	$ **1,715,098**	$ 2,098,100
Liabilities		
Current liabilities		
Bank operating loan *(note 6)*	$ **-**	$ 25,000
Accounts payable and accrued liabilities *(note 7)*	**559,929**	594,609
Current portion of long-term debt *(note 9)*	**58,322**	123,689
Dividends payable *(note 8)*	**-**	263,337
Preferred shares *(notes 8 and 11)*	**-**	473,855
	618,251	1,480,490
Long-term debt *(note 9)*	**141,516**	158,244
	759,767	1,638,734
Commitments *(note 10)*		
Deficiency in assets		
Share capital *(note 11)*	**22,151,406**	22,343,053
Warrants *(note 11)*	**80,896**	80,896
Contributed surplus *(note 11)*	**835,845**	613,819
Deficit	**(22,112,816)**	(22,578,402)
	955,331	459,366
	$ **1,715,098**	$ 2,098,100

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Approved by the Board:

Signed: "John Perreault" — Director

Signed: "Wojciech Drzazga" — Director

Unaudited Condensed Interim Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)
December 31, 2014

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance, June 30, 2013	22,330,215	76,677	569,452	(22,559,823)	416,521
Stock options exercised	12,838	-	(5,338)		7,500
Stock-based compensation	-	-	49,705	-	49,705
Net income for the period	-	-	-	4,930	4,930
Balance, December 31, 2013	21,343,053	76,677	613,819	(22,554,893)	478,656
Warrants granted	-	4,219	-	-	4,219
Net loss for the period	-	-	-	(23,509)	(23,509)
Balance, June 30, 2014	22,343,053	80,896	613,819	(22,578,402)	459,366
Settlement of preferred shares	(191,647)	-	222,026		30,379
Net income for the period	-	-	-	465,586	465,586
Balance, December 31, 2014	**$ 22,151,406**	**$ 80,896**	**$ 835,845**	**$ (22,112,816)**	**$ 955,331**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income
(Stated in Canadian Dollars)
December 31, 2014

	Three months ended 2014	Three months ended 2013	Six months ended 2014	Six months ended 2013
Product sales	**$ 691,622**	$ 945,951	**$ 1,762,356**	$ 2,080,201
Cost of product sales *(note 4)*	**525,131**	615,708	**1,251,314**	1,328,416
	166,491	330,243	**511,042**	751,785
Expenses				
Selling, general and administrative *(note 16)*	**317,421**	330,541	**623,222**	675,117
Stock-based compensation (*note 11)*	**-**	49,705	**-**	49,705
Interest expense - long term *(note 12)*	**3,310**	7,976	**10,879**	17,568
Interest expense - other	**412**	571	**1,177**	782
Depreciation of equipment	**880**	756	**1,759**	1,512
Foreign exchange (gain) loss	**(814)**	(5)	**1,997**	3,332
	321,209	389,544	**639,034**	748,016
(Loss) income before other income and income taxes	**(154,718)**	(59,301)	**(127,992)**	3,769
Other income				
Interest income	**897**	373	**1,598**	1,161
Debts forgiven (*note 7*)	**51,545**	-	**51,545**	-
Gain on settlement of preferred shares (*note 8*)	**540,435**	-	**540,435**	-
	592,877	373	**593,578**	1,161
Income (loss) before provision for income taxes	**438,159**	(58,928)	**465,586**	4,930
Provision for income taxes	**-**	-	**-**	-
Comprehensive income (loss) for the period	**$ 438,159**	$ (58,928)	**$ 465,586**	$ 4,930
Comprehensive income (loss) per share				
Basic	**$ 0.04**	$ (0.01)	**$ 0.04**	$ 0.00
Fully diluted	**$ 0.04**	$ (0.01)	**$ 0.04**	$ 0.00
Weighted average shares outstanding				
Basic	**10,648,696**	10,648,696	**10,648,696**	10,639,729
Fully diluted	**10,648,696**	10,648,696	**10,648,696**	11,935,295

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
December 31, 2014

	Three months ended 2014	Three months ended 2013	Six months ended 2014	Six months ended 2013
Cash flow from operating activities				
Net income (loss) for the period	**$ 438,159**	$ (58,928)	**$ 465,586**	$ 4,930
Items not involving cash				
Depreciation of equipment	**33,970**	31,309	**67,939**	62,618
Interest accretion	**305**	3,906	**4,066**	7,777
Share based payments	**-**	49,705	**-**	49,705
Debts forgiven	**(51,545)**	-	**(51,545)**	-
Gain on settlement of preferred shares	**(540,435)**	-	**(540,435)**	-
Changes in non-cash working capital items:				
Accounts receivable	**83,127**	166,736	**(16,629)**	124,458
Inventories	**(144,830)**	72,839	**69,073**	126,461
Prepaid expenses and other assets	**3,965**	5,196	**3,645**	4,297
Customer deposits	**(3,632)**	(24,312)	**-**	(5,113)
Accounts payable and accrued liabilities	**91,039**	(112,361)	**(22,735)**	(172,362)
	(89,877)	134,090	**(21,035)**	202,771
Cash flow from investing activities				
Purchase of equipment	**-**	-	**(1,208)**	-
Cash flow from financing activities				
Reduction of restricted cash equivalents	**-**	-	**250,000**	-
Repayment of operating loan	**-**	-	**(25,000)**	-
Redemption of preferred shares	**(166,378)**	-	**(166,378)**	-
Proceeds of long-term debt	**-**	-	**197,463**	-
Repayment of long-term debt	**(23,846)**	(100,370)	**(244,024)**	(208,802)
Proceeds of share issuance	**-**	-	**-**	7,500
	(190,224)	(100,370)	**12,061**	(201,302)
(Decrease) increase in cash and cash equivalents	**(280,101)**	33,720	**(10,182)**	1,469
Cash and cash equivalents, beginning of period	**323,642**	88,363	**53,723**	120,614
Cash and cash equivalents, end of period	**$ 43,541**	$ 122,083	**$ 43,541**	$ 122,083

Supplemental Disclosure of Cash Flow Information

During the period the Company had cash flows arising from interest and income taxes paid as follows:

	Three months ended 2014	Three months ended 2013	Six months ended 2014	Six months ended 2013
Cash paid for interest	**$ 3,556**	$ 4,662	**$ 7,472**	$ 10,958
Cash paid for income taxes	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

(Stated in Canadian Dollars)

1. Business of the Company

ZTEST Electronics Inc. (ñthe Companyò) amalgamated under the laws of Ontario and carries on business at 523 McNicoll Avenue, Toronto, Ontario designing, developing, and assembling printed circuit boards and other electronic equipment. The Company's shares trade on the Canadian Venture Exchange under the symbol "ZTE".

2. Significant Accounting Policies

Statement of compliance
The Company has prepared these unaudited condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at June 30, 2014.

The notes to these unaudited condensed interim consolidated financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Companyôs financial position and performance since June 30, 2014. Certain disclosures that appear in the annual financial statements have not been reproduced in these unaudited condensed interim consolidated financial statements and, in this regard only, these unaudited condensed interim financial statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should only be read in conjunction with the annual financial statements as at June 30, 2014.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 24, 2015.

Basis of presentation and going concern considerations
These unaudited condensed interim consolidated financial statements have been compiled by management on a historical cost basis using the accrual basis of accounting, except for cash flow information, and in accordance with IFRS applicable to a ñgoing concernò. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. If the going concern assumption were not appropriate for these condensed interim consolidated financial statements then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Basis of consolidation
These unaudited condensed interim consolidated financial statements include the accounts of the Company as well as the following subsidiaries' assets and liabilities and the revenues and expenses, arising subsequent to the date of acquisition:

Permatech Electronics Corporation (ñPECò)	- 100% owned (1)
Northern Cross Minerals Inc.	- 66.7% owned (inactive)

(1) The Company has granted a creditor the right to acquire a 24% interest in PEC *(note 9)*.

Significant accounting judgments and estimates
The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and judgments include, but are not limited to, the recoverability of inventory and the recognition and valuation of deferred tax amounts.

(Stated in Canadian Dollars)

2. Significant Accounting Policies - continued

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets or cash generating unit (CGU) have suffered an impairment loss. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. Where such an indication exists, the recoverable amount of the asset or CGU is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetôs or CGUôs fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an armôs length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

Accounting standards effective for future periods

IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2018 and has not yet considered the potential impact of its adoption.

IFRS 15, *Revenue from Contracts with Customers:* effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning July 1, 2017 and has not yet considered the potential impact of its adoption.

3. Cash and cash equivalents

The Company held no cash equivalents as at December 31, 2014 or June 30, 2014.

4. Inventories

The carrying value of inventory is comprised of:

	Dec. 31 2014	June 30 2014
Raw materials and supplies [(1)]	**$ 575,609**	$ 636,612
Work in process	**9,183**	12,393
Finished goods	**9,076**	13,936
	$ 593,868	$ 662,941

[(1)] The raw materials and supplies is presented net of provisions for obsolete and/or slow moving items in the amount of $5,801 (June 2014 - $56,045).

(Stated in Canadian Dollars)

4. Inventories - continued

Inventory utilization during the period was as follows:

		Dec. 31 2014		Dec. 31 2013
Raw materials and supplies used	**$**	**753,915**	$	828,620
Labour costs		**353,890**		356,441
Depreciation		**66,179**		61,106
Other costs		**69,260**		56,450
Net change in finished goods and work in process		**8,070**		25,799
Cost of product sales	**$**	**1,251,314**	$	1,328,416

5. Equipment

		Computer Equipment		Office Equipment		Manufacturing Equipment		Leasehold Improvements		Total
Cost:										
Balance, June 30, 2013	$	169,152	$	71,277	$	2,369,053	$	61,003	$	2,670,485
Additions		-		-		-		-		-
Balance, Dec. 31, 2013		169,152		71,277		2,369,053		61,003		2,670,485
Additions		4,259		-		192,155		-		196,414
Balance, June 30, 2014		173,411		71,277		2,561,208		61,003		2,866,899
Additions		1,208		-		-		-		1,208
Balance, Dec. 31, 2014	**$**	**174,619**	**$**	**71,277**	**$**	**2,561,208**	**$**	**61,003**	**$**	**2,868,107**
Accumulated Depreciation:										
Balance, June 30, 2013	$	(163,533)	$	(66,842)	$	(1,755,734)	$	(61,003)	$	(2,047,112)
Depreciation		(843)		(443)		(61,332)		-		(62,618)
Balance, Dec. 31, 2013		(164,376)		(67,285)		(1,817,066)		(61,003)		(2,109,730)
Depreciation		(1,482)		(443)		(80,547)		-		(82,472)
Balance, June 30, 2014		(165,858)		(67,728)		(1,897,613)		(61,003)		(2,192,202)
Depreciation		(1,224)		(355)		(66,360)		-		(67,939)
Balance, Dec. 31, 2014	**$**	**(167,082)**	**$**	**(68,083)**	**$**	**(1,963,973)**	**$**	**(61,003)**	**$**	**(2,260,141)**
Carrying Amounts:										
June 30, 2013	$	5,619	$	4,435	$	613,319	$	-	$	623,373
December 31, 2013	$	4,776	$	3,992	$	551,987	$	-	$	560,755
June 30, 2014	$	7,553	$	3,549	$	663,595	$	-	$	674,697
December 31, 2014	**$**	**7,537**	**$**	**3,194**	**$**	**597,235**	**$**	**-**	**$**	**607,966**

6. Bank operating loan

		Dec. 31 2014		June 30 2014
The line of credit (1), which can be drawn to a maximum of $250,000, bears interest at the TD Bank prime lending rate plus 2.5%, is due upon demand, and is secured by a general security agreement covering the assets of PEC.	$	**Nil**	$	25,000

(Stated in Canadian Dollars)

6. Bank operating loan - continued

(1) During the period this line of credit was restructured to increase the interest rate from the prime lending rate plus 0.5% and to remove the requirement for term deposit security. The $250,000 term deposit, previously classified as restricted cash equivalents, became available for general use on July 7, 2014.

7. Debts forgiven

During the period the Company determined that certain obligations were to be treated as having been forgiven. This determination was based upon the creditors having no legal recourse due to the age of the obligations, all arose in or prior to the 2006 fiscal year, and the fact that the parties to whom the amounts were owed have made no effort to obtain payment from the Company. These obligations were as follows:

Interest payable	$	11,945
Non-interest bearing debenture *(note 9)*		39,600
Total debts determined to have been forgiven	$	51,545

8. Settlement of preferred shares

During the period the Company negotiated a settlement with the holders of the remaining Series A and Series C preferred shares whereby, for aggregate cash payments of $166,378, all outstanding shares were redeemed and all accrued but unpaid dividends were waived. In accordance with IFRS in effect at the time that the redeemable preferred shares were issued the issuance proceeds were segregated between paid in capital, included as an element of share capital, and the portion relating to a liability. The accrued dividends on the redeemable preferred shares were similarly allocated in proportion to the proceeds with a portion of the dividends charged against equity and a portion charged against income for the period. The settlement of these obligations has resulted in the recognition of contributed surplus relative to the equity portions and settlement gains on account of the liability portions as follows:

		Liability Portion		Equity Portion		Total
Proceeds of Series A shares	$	136,024	$	23,976	$	160,000
Proceeds of Series C shares		337,831		167,671		505,502
Redemption price of preferred shares		473,855		191,647		665,502
Settlement amount paid		(118,466)		(47,912)		(166,378)
Redemption price of preferred shares		355,389		143,735		499,124
Dividends waived		185,046		78,291		263,337
Settlement of preferred shares	$	540,435	$	222,026	$	762,461

9. Long-Term Debt

		Dec. 31 2014		June 30 2014
Non-interest bearing debenture. *(note 7)*	**$**	**-**	**$**	39,600
Term loan, having a face value of $19,236, bearing interest at 11.00%, secured by a general security agreement covering the assets of PEC, matures April 2015. Blended monthly principal and interest payments of $4,920 are required. (1, 2)		**18,830**		45,789
Balance forward	**$**	**18,830**	$	85,389

(Stated in Canadian Dollars)

9. Long-Term Debt - continued

	Dec. 31 2014	June 30 2014
Balance forward	$ 18,830	$ 85,389
Term loan bearing interest at the TD Bank prime lending rate plus 1.75% matures July 2019. Monthly payments of $3,291 plus interest are required until maturity. [4]	181,008	-
Term loan with a face value of $150,000 bore interest at 9%, was scheduled to mature October 2017, and was repaid during the period. At the time the funds were advanced the creditor was granted 300,000 warrants. [1, 4, 5]	-	147,408
Term loan with a face value of $50,000 bore interest at 9%, was scheduled to mature October 2017, and was repaid during the period. At the time the funds were advanced the creditor was granted 100,000 warrants. [3, 4, 5]	-	49,136
Total long-term debt	199,838	281,933
Less: Current portion	58,322	123,689
	$ 141,516	$ 158,244

The minimum annual future principal repayments are as follows:

2015	$ 58,322
2016	39,493
2017	39,493
2018	39,493
2019	23,037
	$ 199,838

(1) Payable to a company that is controlled by the spouse of a Director of the Company *(note 12)*.
(2) At the time the funds were advanced the creditor was granted an option to acquire a 24% interest in PEC for $200,000 on or before May 1, 2015.
(3) Payable to the Companyǿs Chief Financial Officer *(note 12)*.
(4) The proceeds of this term loan were used to repay existing term loans.
(5) Each warrant has an exercise price of $0.10, and an expiry date of October 31, 2017.

10. Commitments

The Company leases its operating facility under a lease that is due to expire March 31, 2021. A lease deposit in the amount of $35,000 has been paid and will be applied at the end of the lease. Minimum monthly rental payments ranging from $7,696 to $8,979 are required over the remaining term of the lease as follows:

2015	$ 92,351
2016	99,594
2017	102,310
2018	105,026
2019	107,743
Remaining	134,679
	$ 641,703

(Stated in Canadian Dollars)

11. Share Capital

(a) Authorized:

Unlimited Common shares

Unlimited Preferred shares in one or more series. The following four series have been authorized to date:
Series A shares may no longer be issued and none remain outstanding. [1]
Series B shares may no longer be issued and none remain outstanding.
Series C shares may no longer be issued and none remain outstanding. [1]
Series D shares may no longer be issued and none remain outstanding.

[1] All outstanding shares were redeemed during the period. Until the date of redemption the shares included the right to vote at a meeting of common shareholders because the associated dividends were more than 12 months in arrears.

On January 28, 2015 the Company filed articles of amendment to cancel the Series A, Series B, Series C, and Series D preferred shares. Preferred shares in one or more series may still be issued with the number of shares and the designation, rights, restrictions, conditions, and limitations to be set by the Companyǿs directors prior to issuance.

(b) Issued:

	Dec. 31 2014	June 30 2014
Common shares	**$ 22,151,406**	$ 22,343,053

Common shares	**Number of Shares**	**Amount**
Balance June 30, 2013	10,573,696	$ 22,330,215
Stock options exercised	75,000	12,838
Balance Dec. 31, 2013 and June 30, 2014	10,648,696	22,343,053
Redemption of Series A and Series C preferred shares *(note 8)*	-	(191,647)
Balance Dec. 31, 2014 [1]	10,648,696	**$ 22,151,406**

[1] In the 2013 fiscal year the Companyǿs shareholders approved the issuance of 99,454 common shares in exchange for 100% of the Class A Special Shares outstanding. 91,208 common shares have been issued, representing the entitlement of the identifiable Class A shareholders. 8,246 common shares have been reserved to be issued if and when the remaining Class A shareholders identify themselves to the Company.

Preferred shares	**Dec. 31 2014**	June 30 2014
Preferred shares, beginning of period	**$ 473,855**	$ 473,855
Redemption of Series A and Series C preferred shares *(note 8)*	**(473,855)**	-
Preferred shares, end of period	**$ -**	$ 473,855

(c) Details of warrants outstanding:

	Number of Warrants	Amount
Balance June 30, 2013 and Dec. 31, 2013	2,000,000	76,677
Issued during the period	400,000	4,219
Balance June 30, 2014and Dec. 31, 2014	2,400,000	**$ 80,896**

(Stated in Canadian Dollars)

11. Share Capital - continued

(c) Details of warrants outstanding - continued:

	Number of Warrants		Exercise Price	Expiry Date
Issued Mar. 24, 2011	900,000	$	0.10	Mar. 24, 2016
Issued Feb. 4, 2013	1,100,000	$	0.10	Feb. 4, 2016
Issued Jan 10, 2014	400,000	$	0.10	Oct. 31, 2017

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Beginning and end of the period	2,400,000	$	0.10	June 7, 2016

No warrants were issued during the period ended December 31, 2014. The warrants issued during the 2014 fiscal year were valued at the difference between the face value and fair value of the debts for which the warrants were issued as partial compensation *(note 9)*.

(d) Details of options outstanding:

	Common Shares Under Option	Number of Options Vested		Exercise Price	Expiry Date
Granted March 11, 2013	200,000 [(2)]	200,000	$	0.15	April 27, 2015
Granted December 31, 2013	100,000 [(2)]	100,000	$	0.10	April 27, 2015
Granted Nov. 30, 2010	275,000 [(1)]	275,000	$	0.10	Nov. 30, 2015
Granted Sept. 14, 2012	130,000 [(1)]	130,000	$	0.10	Sept. 14, 2017
Granted December 31, 2013	500,000 [(1)]	500,000	$	0.10	Dec. 31, 2018

	Common Shares Under Option		Weighted Average Price per Option	Weighted Average Expiry Date
Beginning and end of the period	1,205,000	$	0.11	Mar. 28, 2017

(1) Directors and/or Officers of the Company hold these options.
(2) Options are held by the estate of a former Director. The expiry dates were amended to be one year following the date of death.

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the year:

	Dec. 31 2014	June 30 2014
Dividend yield	**None issued**	Nil
Risk free interest rate (%)	**None issued**	1.93
Expected stock volatility (%)	**None issued**	119.90
Expected life (years)	**None issued**	5

(e) Share based payment transactions and contributed surplus

The Company has a stock option plan. The aggregate number of common shares reserved for issuance under this plan cannot exceed 20% of the aggregate number of common shares of the Company that are issued and outstanding. The Company has granted options for the purchase of common shares to employees, directors, officers and other service providers. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

(Stated in Canadian Dollars)

11. Share Capital - continued

(e) Share based payment transactions and contributed surplus - continued:

	Dec. 31 2014	June 30 2014
Contributed surplus, beginning of period	$ **613,819**	$ 569,452
Compensation expense related to stock options granted	**-**	49,705
Stock options exercised	**-**	(5,338)
Redemption of Series A and Series C preferred shares *(note 8)*	**222,026**	-
Contributed surplus, end of period	$ **835,845**	$ 613,819

12. Related Party Transactions

In addition to key management personnel, the Company had transactions during the year and outstanding balances *(note 9)* at the end of the period with 1114377 Ontario Inc. (ñ1114377ò), a company controlled by the spouse of a Director of the Company.

All expenses and year end balances with related parties are at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties.

Description	Dec. 31 2014	Dec. 31 2013
Employee and consultant compensation [1]	$ **160,640**	$ 164,392
Professional fees [1]	**8,508**	16,224
Interest expense ï long-term	**6,558**	4,933
	$ **175,706**	$ 185,549
Stock-based compensation [1]	$ **-**	$ 49,705

[1] Transactions are with key management personnel. As at December 31, 2014 $80,824 (June 30, 2014 - $51,722) was payable to key management personnel and included in accounts payable and accrued liabilities.

13. Income Taxes

Unrecognized Deferred Tax Assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom:

	Dec. 31 2014	June 30 2014
Share issuance costs	$ **19,640**	$ 19,640
Intangible assets	**40,250**	40,250
Property, plant and equipment	**163,932**	97,200
Resource related expenditures	**349,050**	349,050
Scientific research and experimental development	**1,050,618**	1,050,618
Non-capital loss carry forwards	**1,222,154**	1,273,700
Net capital loss carry forwards	**15,592,989**	15,592,989

Share issue costs expire from 2014 to 2017. The non-capital loss carry forwards expire from 2027 to 2034. The net capital loss carry forwards may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely.

14. Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its accounts receivable. In an effort to mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. Bad debt experience has not been significant and it has been determined that no allowance is required as all amounts outstanding are considered collectible.

Concentration of credit risk

Concentration of credit risk arises when a significant portion of the financial assets subject to credit risk arise from a single or limited number of sources. During the current period, no single customer accounted for more than 20% of total revenue (Dec. 31, 2013 – 1 customer at 27%). The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. At December 31, 2014 the Company had current financial assets of $473,655 available to settle current financial liabilities of $618,251. The Company also has an unutilized bank operating line of $250,000 available. The Company manages its liquidity risk through the management of its capital *(note 15)* which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Company's reputation.

Market risks

The Company is exposed to interest rate risk and currency risk. The interest rate risk arises from the bank operating loan for which interest is charged at the prime lending rate of the TD Bank plus 2.5%. Currency risk relates to accounts receivable and accounts payable denominated in US dollars and the potential for future cash flows to fluctuate because of changes in foreign exchange rates. Credit risk is minimized through the reduction of debt when cash flow permits. Currency risk is closely monitored but not actively managed. During the period the Company incurred a loss on foreign exchange in the amount of $1,997 (Dec. 2013 – $3,332).

Sensitivity to market risks

The impact of changes in the prime lending rate of the TD Bank are dependent upon the amount drawn from the bank operating loan and the duration for which it is outstanding. There was no amount drawn from the bank operating loan as at December 31, 2014.

At December 31, 2014 the Company had US$27,475 (June 30, 2014 – US$99,330) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $228 in future cash inflow.

At December 31, 2014 the Company had US$141,870 (June 30, 2014 – US$233,439) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $1,177 in future cash outflow.

The existence of both accounts receivable and accounts payable denominated in US$ does not serve as a hedge with respect to currency risk.

Based upon observations of recent market trends management believes that each of these outcomes is possible but most likely exceed the Company's immediate market risk exposures.

15. Capital disclosures

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due and to provide return for shareholders. This is achieved primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. Except for meeting the repayment terms, as may exist from time to time, associated with the long-term debt instruments, there are no externally imposed capital requirements.

(Stated in Canadian Dollars)

15. Capital disclosures - continued

Management includes the following items in its definition of capital:

	Dec. 31 2014	June 30 2014
Long-term debt	**$ 199,838**	$ 281,933
Share Capital	**22,151,406**	22,343,053
Warrants	**80,896**	80,896
Contributed surplus	**835,845**	613,819
Deficit	**(22,112,816)**	(22,578,402)
Net capital under management	**$ 1,155,169**	$ 741,299

16. Selling, general and administrative expenses

Selling, general and administrative expenses are comprised of the following amounts:

	Dec. 31 2014	Dec. 31 2013
Employee and consultant compensation *(note 12)*	**$ 406,620**	$ 450,752
Occupancy costs	**131,900**	132,728
Professional fees *(note 12)*	**28,965**	35,574
Shareholder services	**13,311**	13,171
Insurance	**17,490**	16,320
Other	**24,936**	26,572
	$ 623,222	$ 675,117